

Information and Communication Technologies (ICT) Overview 2005

Page Header Information

Country/Market: Kazakhstan
Capital: Astana
Population: 15,000,000
Languages: Kazakh, Russian
Monetary Unit: Tenge
Exchange Rate: \$1/KZT 130
GDP per Capita (in US\$): 2,180

Part 1—Market Overview

Kazakhstan's government identifies Information and Communications Technologies (ICT) as a strategic industry in need of modernization, and it has a long-term plan of modernization and liberalization of its telecommunications networks. The biggest challenge for telecommunications in Kazakhstan is its small population spread over a vast territory. Kazakhstan generated 1.1 Billion U.S. Dollars (151 Billion Tenge) in telecom revenues in 2004 with the increase of more than 32% over 2003 revenues. Key growth drivers of the telecom sector include the deployment of fiber-optic network across Kazakhstan, providing international connectivity, digitalization of exchanges surpassing 60 percent by the end of 2004, adoption of a new law on telecommunications in July 2004, and liberalization of the market.

Kazakhstan has a relatively strong fixed-line penetration of around 15.9 telephone lines per 100 inhabitants, with six operators of fixed-line telephony serving about 2.5 million subscribers in Kazakhstan. Fifty percent government owned Kazakhtelecom with its 2.4 million subscriber base dominates the market. Mobile communications is the most rapidly developing segment of the communications market with revenues increased by 57.1% in 2004 over 2003. By the end of 2004, mobile operators in Kazakhstan had 2.7 million subscribers in comparison with 900 thousand at the end of 2002, surpassing the number of fixed-line subscribers. This is about 18% of all population of Kazakhstan. By May 2005, the mobile subscriber base increased to 3 million people. Currently, there are three mobile operators in Kazakhstan, including two GSM operators: GSM Kazakhstan (trademarks Kcell and Activ) and KarTel (trademarks K-mobile, Excess, and Beeline), and one CDMA operator Altel (Dalacom and Pathword trademarks).

The new telecommunications legislation was adopted in June 2004 by the Parliament and signed by President Nazarbaev into law. It is the main regulatory and legal foundation for the liberalization and development of the telecom sector in Kazakhstan. The main provision of this new law is to provide all operators equal access to the telecommunications network of Kazakhstan, to introduce universal services to conform to practices in other countries, to bringing in a system of alternative operators of international and long-distance services by abolishing Kazakhtelecom exclusive license. However, the new rule still limits foreign ownership to 49% for operators of the ground fixed lines providing international and long-distance telephony services. Kazakhstan plans to fully liberalize its telecommunications market by the end of 2006.

GDP growth in Kazakhstan was 9.2% in 2004 from 2003.

Part 2—The Marketplace for Business Process Technology

The computer services sector is rapidly expanding to meet increased market demand from growing domestic businesses needing the latest information technologies, equipment, and services. More small- and medium-sized businesses also are becoming computerized. In addition, the government of Kazakhstan also has a need for automation of its financial and

educational institutions, customs agencies, and ministries. In this regard, in 2004, Kazakhstan's government adopted a program of formation of an electronic government in Kazakhstan for 2005-2007 and allocated 51.9 billion Tenge for this program (USD 400 million, exchange rate is Tenge 130 to USD 1). An additional 150 million Tenge (USD 1.2 million) is planned to allocate from the regional budgets for realization of the informatization program.

The market is moving gradually towards services instead of only hardware and software solutions. The growing demand for computer services includes integration services, systems and networks deployment, hardware maintenance, localization of foreign software, IT-consulting, installation and maintenance of software packages, and training. Also, web-design services are steadily growing due to expansion of local Internet service providers in Kazakhstan.

There are three groups of software companies in Kazakhstan. The first group of companies is software developers that mostly serve government agencies and partially private companies. The second group is concentrated on the development of IT solutions for corporate market. They offer IT consulting services, and installation of software packages of foreign origin as well as self-developed software. The third group of firms sells and installs software applications of foreign companies or has a software sales department as a part of the bigger business of IT consulting and sales of computer and telecommunications equipment. IPR is still an issue in Kazakhstan but end users are gradually moving to the usage of the licensed software, and IT companies experienced two- to three-fold increases of sales of licensed software in 2004 from 2003.

Enterprise management systems services are among the most requested IT services in Kazakhstan. A steady rise in demand for these services is forecasted for the next five years, especially for medium-sized businesses. The ERP/CRM segment has steadily developed in Kazakhstan due to the progress towards clearer strategic IT vision on the part of the management of local companies. Most popular among Kazakhstani businesses are MBS solutions like Navision and Axapta, due to active promotion of Microsoft Business Solutions certified partners. German business solutions provider SAP is very active in Kazakhstan as well. Since 1997, it installed more than 20 solutions for enterprises in Kazakhstan, and plans to double its market share in 2005.

Data Processing Management services are mostly used by banks, telecom providers and big industrial enterprises in the energy sector. With the rapid development of the banking system in Kazakhstan, the range of services increases, which dictates the demand for latest information technologies. Data processing management and maintenance services are used by banks and telecom operators for support of their own systems as well as for development of the customer service and call centers.

All major U.S. IT market players are represented in Kazakhstan including Hewlett-Packard, IBM, Dell, Intel, Microsoft, Oracle, Sun Microsystems, Robertson & Blums, and some others. These U.S. companies gained a good position in this market and have a variety of clients among Kazakhstani and foreign businesses, and governmental entities. For example, Microsoft reports that it doubled its sales in 2004 from 2003 in Kazakhstan, while Intel's turnover was up 128 percent in 2004 from 2003. Oracle plans to increase its sales in 2005 in the Central Asia region by 100 percent. Ninety percent of Oracle sales are in Kazakhstan with 200 customers.

Major end-users of computer equipment, services and software include governmental institutions, foreign companies and joint ventures, and local businesses including big national companies. About 40 percent of end-users are comprised of governmental entities that announce procurement tenders for information technology services. Private sector demand makes up 60 percent. Fifteen to twenty percent of corporate customers are made up of foreign companies and joint ventures in the energy sector, banking, accounting, and infrastructure sectors. There is a significant potential for the increase of demand for information technology

services including system integration and development of customized software, due to boosting oil and gas business activity in the region, and development of related infrastructure projects.

Part 3—The Marketplace for Communications Technology

The state-controlled telecommunications company Kazakhtelecom is actively building a fully-digital national telecommunications network based on digital local and long-distance switches and fiber-optic lines linking all major cities of the country. In addition, companies like KazTransCom, a subsidiary of KazMunayGas, the national oil company, and Transtelecom, a subsidiary of Kazakhstan's national railroad company, are using existing transport networks to lay fiber optic and other communications lines, positioning themselves to compete in a deregulated market as well as serving their own companies' communications needs. Kazakhtelecom is expanding its service to rural and remote areas through DAMA-technology satellite communication stations. There are also several private telecom companies in Kazakhstan that cover one-third of the market. After the liberalization of Kazakhstan's telecom market in mid-2004, Kazakhtelecom was deprived of its exclusive license for provision of international and intercity calling services. By April 2005, four companies besides Kazakhtelecom, namely, Transtelecom, Kaztranscom, Arna (DUCAT), and ASTEL received licenses for provision of international and intercity connectivity services. Total telecom services operators licensed in Kazakhstan by mid-2005 accounted to 1,500, according to the Agency for Informatization and Communications. Sixteen operators are active in Almaty, the commercial capital of Kazakhstan.

A dozen companies with the domination of Kazakhtelecom, provide dial-up and leased line (ADSL) Internet access in cities throughout Kazakhstan. A very small, but rapidly growing portion of Kazakhstan's population is using the Internet. Between 2000 and 2003, the number of Internet subscribers grew about 200% a year. According to local statistical researchers, the number of Internet users in Kazakhstan was about million people by the end of 2004, among them around 280,000 regular users of Internet. By the end of 2005, the government expects 10% of Kazakhstanis to be users of the Internet with the drop down of connectivity costs, and plans to connect 75 percent of all Kazakhstani schools to Internet. With the introduction of the so-called universal service, the rural population of Kazakhstan will be able to use Internet in the near future.

Kazakhstan spent up to USD 244 million on imports of telecommunications equipment in 2004, up 8 percent from 2003 (USD 225 million), and up 30 percent from 2002 (USD 172 million). There is almost no domestic production of telecom equipment except coaxial and fiber-optic cables production. Volumes of domestic production are far from demands of the market. Imports represent 97% of the telecommunications equipment market. United States is placed five in the list of top ten importers of telecommunications equipment to Kazakhstan in 2004 with the seven percent share in the total imports after Sweden (20 %), Germany (14%), Russia (10%), and China (9%). American companies most active in Kazakhstan are Motorola Lucent Technologies, Avaya and Cisco Systems, among telecom providers is MCI/Worldcom. Foreign manufacturers and suppliers active in Kazakhstan are Ericsson, Alcatel, Nokia, Siemens, Huawei, ZyXEL, ZTE, and others.

Part 4—The Marketplace for Digital Equipment & Systems

The computer equipment market in Kazakhstan can be divided into high-end computer products and low-end computer products. These segments in their turn can be divided into locally assembled computers and brand name computers. Locally assembled computers occupy about 65 percent of the market, while brand name computers occupy 35 percent of the market, according to industry representatives. Companies, wishing to enter high-end markets, should be ready to consider the possibility of offering specific products to their customers, while firms oriented to low end markets should strongly consider competitive pricing. In recent years, most of the IT companies took advantage of considerable government projects and corporate clients. Currently, demand from the corporate sector for latest technologies is stable. At the

same time, many IT companies see a rapidly growing demand for computers and peripherals from the retail sector.

U.S. companies most active in the computers/peripherals market in Kazakhstan are IBM, Hewlett Packard/Compaq, and Dell.

The retail market for digital equipment and systems is booming in Kazakhstan. According to BISAM, total retail market of 12 most popular products in Kazakhstan grew 70 percent from USD 734 million in 2003 to USD 1,244 million in 2004. Products include TV sets, cellular phones, AV systems, displays (CRT and LCD), camcorders, DVDs, and printers including multifunctional printers.

Part 5—Future Prospects in this Market

Best prospects in the Kazakhstani ICT sector are as follows.

In the hardware/peripheral sector, consumers are increasingly interested in data storage equipment, servers, multifunctional products (printer, copier, fax, scanner, all-in-one), and LCD screens.

In the software sector, consumers are interested in all types of standard applications, web content management software and solutions, networking software and network security products, development tools, Windows, Linux and UNIX-based products, storage area management solutions, CRM and ERP products, and application management products. There is a strong demand for game software in the consumer market.

In the services sector, demand is focusing on all types of system integration services as well as information system security services, and IT-consulting.

There also is growing demand for telecom equipment and services for mobile, fixed line telephony, cable, broadband, mobile (value-added) data services, and all types of Internet-related communication services. In 2006, the major operator, Kazakhtelecom, plans to begin implementation of the New Generation Network (NGN) project including deployment, first, in Almaty, and then in other cities in Kazakhstan, of a new broadband infrastructure based on the IP/MPLS and Metro Ethernet technology. The government plans to attract operators to provide universal services in the rural areas of Kazakhstan by deployment of CDMA-450 network, and installation of communication kiosks. Also, the government is going to open a tender by the end of 2005 on DCS 1800 frequency to attract the third GSM operator in Kazakhstan. By the end of 2005, Kazakhstan plans to launch its own first communications satellite, which is currently under construction by Russia's Khrunichev Research and Production Center. This will be the first communications satellite owned by Kazakhstan. Kazakhstan annually spends some USD 26-28 Million on satellite channel rentals. The launch of Kazakhstan's own satellite will cost USD 65 Million, the initial expenses of which will be repaid over the first three years. Also, the government of Kazakhstan allocated 44 billion tenge (approx. USD 340 million) for the development of Kazakhstan's space program.

Kazakhstani Engineering and Technology Transfer Center launched an IT park in 2005 in Almaty. The world's leading IT and communication companies are involved in its operations and memoranda of cooperation have already been signed with Microsoft, Hewlett Packard, Siemens, Cisco Systems, Tales, LG, Oracle, Sun Microsystems, Samsung and others. The IT Park aims to improve and develop the IT industry in Kazakhstan as part of the national economic priorities, including diversification, import substitution, hi-tech development and the creation of new jobs for highly qualified personnel.

Part 6—Important USDOC Resources in this Market

The U.S. Commercial Service Kazakhstan will be organizing the U.S. Pavilion at the Kazakhstan International Telecommunications Show on May 30 – June 2, 2006. The show is expected to highlight the latest telecommunications, IT technologies, software and automation technologies. U.S. firms should seriously consider the advantages of this option to explore business opportunities and obtain exposure in the Central Asia market. The KITEL show provides a means for testing market potential and making contact with prospective agents and distributors in Kazakhstan and Central Asia. This exhibition is the largest and most prestigious event in the field of telecommunications and IT in Kazakhstan and Central Asia, with around 400 exhibitors from 50 countries. In 2005, KITEL received 35,000 visitors from all regions of Kazakhstan, as well as from Kyrgyzstan, Uzbekistan, Turkmenistan and Russia.

KITEL 2006 will feature:

Five Specialised Sections:

- Telecommunications, Internet
- Computer and IT Technologies
- Banking and Office Technologies
- Security Systems
- Cable production
- Mobile and Satellite communication

Special Events (smaller satellite shows in the same venue)

- Software and Automation Exhibition (Software Showcase)
- Broadcasting & Broadband Exhibition (TRBK)
- Bank Technologies Exhibition (BankTech)

The event is organized by the International Trade and Exhibitions British Company ITE Group PLC (UK) and Iteca LLP, its partner in Kazakhstan, Central Asia, Caspian region, Caucasus, Turkey and Russia. ITE Group PLC annually holds over 70 specialized international exhibitions and conferences in Kazakhstan, Kyrgyz Republic, Uzbekistan, Turkmenistan, Azerbaijan, Georgia, Tajikistan, Russia and Turkey.

To register for the participation in the U.S. Pavilion at the KITEL exhibition, please contact Commercial Specialist Liza Vostrikova, U.S. Commercial Service Kazakhstan at Liza.Vostrikova@mail.doc.gov

Market Research Reports on ICT industry in Kazakhstan can be found on www.export.gov (registration is required) or requested from the U.S. Commercial Service Kazakhstan (e-mail: Almaty.office.box@mail.doc.gov)

- Doing Business in Kazakhstan: 2005 Country Commercial Guide
- EBRD-Kazakhstan Telecoms & Media: Kazakhstan Telecom Corporate Loan
- Developments in the Kazakhstan Telecommunications Market up to August 2003
- Telecom Equipment Certification

Contact Information

U.S. Commercial Service Almaty
Mitchel Auerbach, Senior Commercial Officer
Liza Vostrikova, Commercial Specialist
U.S. Embassy Almaty
Samal-2, 97 Zholdasbekov Street
Samal Towers Office Building

11th Floor, Office 1137
Almaty 050059, Kazakhstan

Tel: (3272) 50-48-50, 50-49-50

Fax: (3272) 50-49-67, 50-48-74

E-mail: almaty.office.box@mail.doc.gov

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